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Poland

Agricultural Situation

EU accession impact on agricultural production and trade

2005

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Report Highlights:

To date, accession has proven to be a mixed bag for Polish farmers. Poland was not flooded with EU products, as many feared prior to accession. In reality, some sectors thrived, other appeared untouched and a few suffered from increased competition. Sugar producers gained the most. The livestock, meat and dairy sectors experienced a significant increase in exports to other EU countries due to the elimination of tariffs and modernization of these sectors with the use of EU pre- and post-accession structural funds. Grain producers faced a severe drop in prices, not due to accession but as a result of good crops in 2004 and 2005. Their losses, however, were partly offset by CAP market intervention mechanisms. The oilseeds and fruit processing sectors remained relatively untouched. Strawberry producers, however, faced stiff competition from lower priced imports from China as a result of lower import tariffs brought by accession.

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Executive Summary

The May 1, 2004 entry of Poland into the EU corresponded with record grain production in 2004 and a good crop in 2005 that caused a very significant drop in grain prices. Losses from this abundance, however, were partly offset by EU intervention. Grain prices fell 25 percent in 2004 and fell about another 15 percent after the 2005 harvest. As a result of accession, barley and corn were included in intervention purchases for the first time. The number of farmers participating in intervention increased significantly in 2005, as farmers grew more familiar with this new support program. Accession did not lead to any significant changes in grain trade.

Sugar farmers and processors realized one of the largest gains in income as a result of accession due to higher sugar beet prices and increased demand. Domestic sugar use in MY 2004/05 increased to 1.65 MMT from 1.59 a year ago.

Accession appears to have had hardly any impact on rapeseed production and oilseed meal and vegetable oil use and trade. EU accession did not result in greater imports because of relatively good domestic production. Nor did exports increase. Use and trade of oilseed meals and oils did not change significantly because these products faced almost the same conditions as before accession.

EU accession had a strong, positive impact on Polish livestock production as well as on prices and exports of animal products. In fact, increased dairy and meat product exports to other EU countries accounted for virtually all of the increase in agricultural trade between Poland and other EU member states after accession.

The situation in the fruit processing and trade sectors after May 1, 2004 did not change much. All tariffs with the EU countries disappeared which completely opened the European market to Polish products.

There has not been any significant increase of imported food products from the EU. Import tariffs changed, sometimes in a positive way, including for the United States. For example, the tariff for wine fell 30 percent or 25 EUR/hl to 13.1 EUR/hl and for wood products from 9 to 0 percent.

Grains, Sugar And Oilseeds Production

Grains

Accession occurred in a year of a record grain harvest, which led to large intervention stocks as prices fell. Grain prices were reduced after the 2004 harvest by around 25 percent and further declined about 15 percent for major grains after 2005 harvest. Grain intervention at the beginning of CY 2005 was anticipated to be not more than 0.5 MMT. Later, however, low prices, accelerated intervention deliveries and at the end of July 2005 intervention stocks were around one million tons of which wheat was 826,000 tons, corn 156,000 tons and barley 21,600 tons. Similar amounts are expected to be delivered to intervention after the 2005 crop. After accession, barley and corn were allowed into intervention for the first time. Prior to accession, intervention was limited to milling wheat and rye. Current intervention is limited to wheat, barley and corn. In addition, after accession the number of farmers using intervention increased significantly as farmers grew more familiar with this new support program.

Grain prices in PLN per metric ton

	2003	2004	2005
Food wheat	569	436	366
Feed what	552	408	339
Food rye	412	322	313
Corn	511	426	370

Source: Ministry of Agriculture and Rural Development

Despite the additional income from direct payments, grain prices in Poland, while close to prices in other new EU countries, are far below prices in older member states. Farmers are complaining about low grain prices, stressing that in many cases grain production costs are higher than income from production. As a result, in some areas (Opole province) there were reported significantly increased winter rapeseed plantings for 2006 harvest, which replaced wheat plantings.

No significant changes were observed in grain trade after accession. However, some minor changes can be noted. Imports of rye from Germany stopped and were replaced by some rye exports to Germany. Before accession German rye was competitive on the Polish market because of EU support. After accession, however, the situation reversed as market prices in Poland fell lower than in Germany. This situation may continue and could slow the decline in rye acreage in Poland. Malting barley and barley malt faced a somewhat similar situation as rye. Certain amounts of barley were exported from Poland with EU support, including some to other EU countries, for example Spain. Some was also exported without support because of low domestic prices. However, exports of intervention stocks from Poland are rather small and far below entitled amounts. According to traders, intervention grain from Poland is much less competitive than grain from other countries due to higher Polish transportation costs, including high loading costs at Szczecin and Gdansk ports and the cost of Baltic Sea transport.

Sugar and Sugar Beet Production

Sugar farmers and processors realized one of the largest gains in income as a result of accession due to an increase in sugar prices. Domestic sugar prices after accession increased to the level mandated by EU regulations. As a result, in 2004 average net income for the processing industry rose 10.7 percent. In contrast, in 2003 the industry suffered an 11.4 percent decline in income. Beet producers also benefited because sugar beet price also rose in Poland after accession. In 2004, beet prices increased 50.6 percent to an average PLN 187 per MT.

Additionally, accession resulted in increased demand for sugar. Domestic use of sugar in MY 2004/05 increased to 1.65 MMT from 1.59 a year ago. That increase was attributed mainly to increased production of various products containing sugar. Demand for these products was driven by open access to EU markets. According to the Institute of Agricultural Economics, production of chocolate increased by 30 percent and chocolate products by 18 percent.

Oilseeds

Accession had virtually no impact on rapeseed production and oilseed meal and vegetable oil use and trade. Although, before accession the Polish market was relatively well protected from rapeseed imports, imports did not increase after accession because of relatively good domestic production. It is expected that if Poland implements EU policies that support bio-diesel use, domestic rapeseed production could double. Currently, the only reason rapeseed is attractive to farmers is relatively low grain prices, which make rapeseed production more profitable. Prior to accession, rapeseed producers did not receive government support. After accession, they are benefiting from direct payments.

Use and trade of oilseed meals and oils did not change significantly after accession because these products face almost the same conditions as before accession. Some small changes in protein meal trade are almost exclusively related to small differences in domestic demand for feeds.

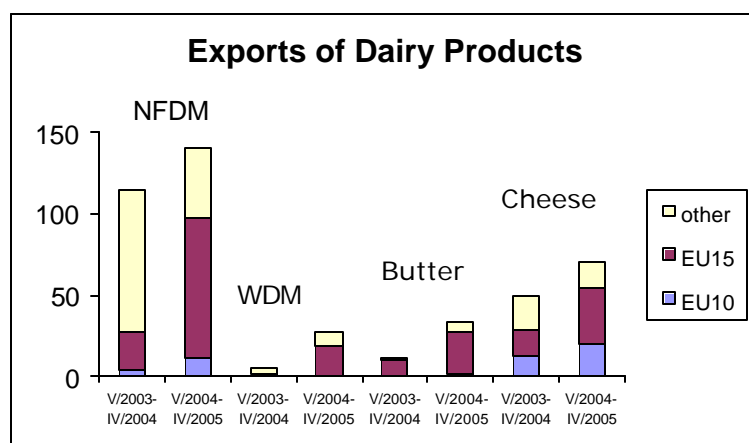
Dairy, Livestock, Poultry and Meat Production

Dairy Cattle

The major change for Polish dairy farmers caused by EU accession was the introduction of milk production quotas. In 2005, the milk quota is almost 9 million tons. Introduction of milk quotas caused a decrease in dairy cattle inventories and improvement in the quality of raw milk. The decrease in dairy cattle inventories stemmed from intensive culling of less productive cows. Improvements to milk quality were the result of very strict EU regulations and effective implementation of milk quality standards by dairy processing plants and the Polish veterinary service. It is expected that in 2005, 90 percent of milk sold to dairy processing plants will be in the first quality class. In contrast, five years ago the figure was only 20 percent. Within the last five years, the average milk yield per cow has increased by almost 14 percent.

Dairy Industry

EU accession stimulated exports of Polish dairy products and caused increased sales of raw milk to dairy processors and reduced direct sales to consumers. In 2005, the number of farms delivering milk to processors amounted to 294,000. The Polish dairy processing industry started to adjust to the EU standards several years before accession using adjustment funds (SAPARD). As a result, at the moment of accession most of plants were approved to sell on the EU market. Currently, there are 243 Polish dairy plants approved for export in the EU. The increase in exports led to higher retail prices and a decrease in domestic consumption of dairy products. According to estimates of the National Institute of

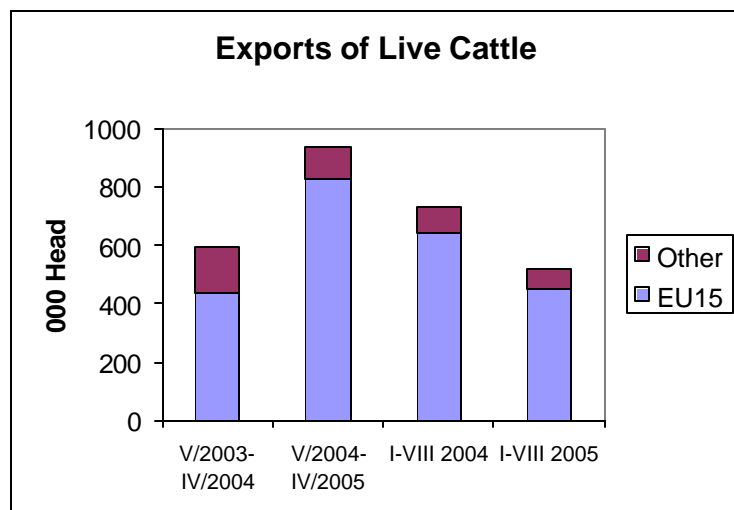


Rural Economics, exports of dairy products in 2005 will increase by 23 percent in comparison to 2004. The increase in exports of dairy products was caused by the elimination of trade barriers with EU member states, high world prices for dairy products and a favorable Polish PLN/Euro exchange rate. Poland exported 65 percent of its dairy products to the EU-25 market in 2004. Polish raw milk and cream were exported mainly to the German and Dutch markets. The Polish dairy industry is considered to be one of the most modern in Europe.

Modernization of the industry continues based on use of post accession EU structural funds available to the industry.

Beef Cattle

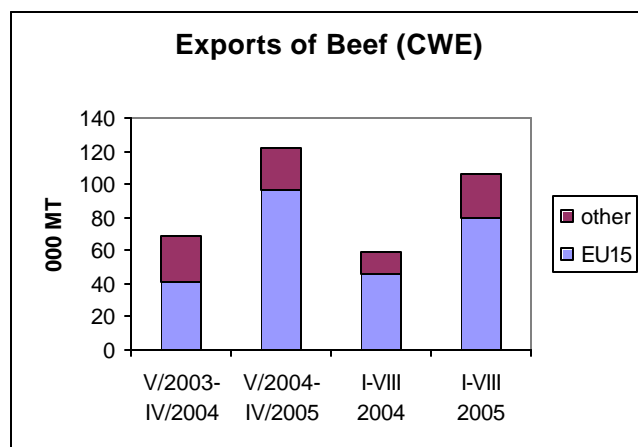
Poland has no tradition of beef cattle production and beef consumption. Before EU accession, Poland was an exporter of calves and fattening cattle to the EU, but EU import quotas limited exports. Accession removed export barriers and strong demand for exports of calves for fattening (Italy) and cows for slaughter (the Netherlands) resulted in record exports of live cattle in 2004. Exports of live cattle are expected to decline in 2005 due to the increase of calf prices on the domestic market.



expected to face shortages of beef, may result in a reduction of exports of live cattle and an increase in domestic slaughter.

Beef

Record exports of live cattle in 2004 resulted in a 20 percent drop in beef output. Beef production is expected to increase in 2005 due to reduced exports of live cattle and higher slaughter to meet potential export demand for beef. Domestic consumption of beef is at a very low level due to high prices caused by EU accession and a lack of tradition of eating high quality beef in Poland. It is expected that strong demand from the former EU-15 countries for beef will continue in 2006 stimulating production of young fattening cattle for export and exports of beef.



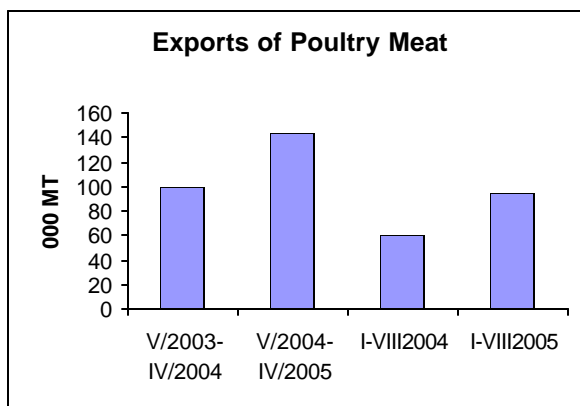
accession, Poland was already a strong producer and exporter of pork and pork products. Accession did boost both imports and exports of pork and pork products to EU member states. The Institute of Rural Economics estimates that exports of pork (CWE basis) in 2005 will amount to 225,000 MT and will be seven percent higher than in 2004. Imports of pork in 2005 are expected to grow by 27 percent in comparison to 2004 and are estimated to reach 161,000 MT. It is expected that an increase in hog inventories and pork output in 2006 will stimulate domestic consumption and exports to other EU and third countries.

Swine and Pork

EU accession has had less of an impact on the hog industry because, prior to

Poultry Meat

In the early months after EU accession, exports of poultry meat grew by 40 percent in comparison to the same period before accession. Strong exports continue in 2005. In the first eight months of 2005, poultry meat exports were 57 percent higher than in the same period of 2004. Exports have stimulated production, which is expected to grow this year by eight percent in comparison to 2004.



Higher output of poultry meat has also been stimulated by cheaper compound feeds for poultry. Before EU accession, poultry feeds in Poland were 20 to 30 percent more expensive than in the former EU-15 countries. After accession, feed prices went down making poultry production more

profitable.

However, a stronger Polish currency vis-à-vis the Euro has had some adverse effects on the further growth of poultry production and exports. Domestic consumption is stagnant due to higher retail prices and limited purchasing power. Consumption temporarily fell between September and November 2005, due to concerns about avian influenza.

In the later months after accession, a stronger Polish zloty and higher domestic prices stimulated imports of poultry meat. Imports of poultry meat increased 370 percent during this period. Over 90 percent of imports originated in the former EU-15 countries. In 2005, imports are expected to stabilize at a high level. In the first 8 months of 2005, imports of poultry meat were two percent higher than in the same period of 2004.

Seafood, Fruit And Processed Products

Seafood

Accession in May 2004 opened EU seafood markets to Polish seafood processors. Also, due to the availability of EU structural funds many factories modernized or have expanded their production lines. The Polish seafood processing industry has been successful in adapting to the requirements of the common market. At the end of 2004, there were 314 processing plants. Most of them meet all EU hygienic standards and are allowed to sell their products on the common market. More than 80 Polish processing plants used pre-accession funds (SAPARD) to purchase and install state-of-the-art equipment. Accession also required Poland to implement EU tariff rates. This led to an increase in import tariffs for Norwegian seafood products. Prior to accession, imports of frozen fish from Norway entered Poland duty-free, while U.S. frozen fish faced a 10 percent import duty. In addition, the Norwegian government subsidized its producers. So Norwegian fish was much cheaper than American fish. After accession, however, Norwegian suppliers faced the same import tariff as U.S. suppliers. With the increase in the price of Norwegian fish, Polish importers began to express greater interest in U.S. herring and mackerel.

Poland's accession to the EU has given a considerable boost to the future development of fish and seafood exports, which have increased in value and quantity terms. Polish products are still more competitive than products from other European countries, so demand is growing. Intensive restructuring of the Polish fishing fleet is going as a result of accession. More than

100 ship owners decided to scrap their fishing vessels in the period from August 2004 and April 2005. By the end of 2006, about 30 percent of the Polish Baltic fleet likely will be scrapped. The reduced number of fishing vessels should improve the economic situation of fishermen. Those who decided to scrap their vessels will receive financial compensation for doing so. For example, each crewmember of a vessel that is scrapped will receive Euro 10,000. As a result, some crews doubled in size prior to scrapping as the family members of actual crews were added to the crew list. As of now, almost 840 applications for compensation for job loss have been received. There are still about PLN 100 million (roughly US\$ 30 million) available for compensation for the crew and the owners of scrapped vessels. Those who have decided to stay in fishing are upset that the EU has extended the protection period for cod in the eastern part of the Baltic Sea. The decision has lowered incomes during four months of the year.

Fruit

Overall, the situation of the fruit processing industry did not change much after EU accession, as this sector already enjoyed some privileges in trade with the EU. In the fresh fruit trade, the EU minimum entry price for Polish fresh fruit and vegetables disappeared, thus making Polish fruits more competitive in EU markets. At the same time, however, lower priced fruits, especially Chinese strawberries, began entering Poland and other EU markets and displaced Polish fruits.

Frozen Strawberries

After Poland's entry into the EU, Poland's import tariff for frozen strawberries fell from 30 to 14.4 percent. The combination of a tariff reduction and elimination of Poland's minimum import prices had an adverse impact on the Polish strawberry industry. Prior to accession, the minimum import price for frozen strawberries was 750 Euro per ton. Removal of the minimum price lead to an increase in imports of lower priced frozen strawberries from China. Consequently, in 2005 Chinese frozen strawberries, which averaged 400-500 Euro/MT, displaced large quantities of Polish frozen strawberries, which averaged about 600 Euro/MT. The fall in the price of frozen strawberries also had an impact on the price of fresh strawberries, which fell to their lowest level in four years. In response, Poland asked the EC to re-introduce a minimum import price to protect Polish strawberries from lower priced imports. The EC promised to study the issue, but it is not clear yet when, or even if, any action will be taken.

High Value Products

The following high value food products from the United States greatly benefited from the reduction in Poland's import duties after accession: wine, dried fruit and nuts, and grapefruit. While in some cases, such as wine, anticipated price reductions that were to be introduced by importers, were not as low as expected, overall imports of all of the above commodities increased.

In many cases, Polish imports of U.S. food products are via transshipments through other EU member states, such as the Netherlands and Germany. Thus, official Polish trade figures do not fully reflect the amount of U.S. product imported into the Polish market.

Taking wine as an example, total imports of wine into Poland increased over 10 percent in the first twelve months after accession compared with the period between May-April 2003/2004. Direct shipments of wine from the United States during the same period showed a decline of 22 percent while direct imports of wine from the United State by the original EU 15 countries increased over 24 percent. Trade sources confirm that the amount

of U.S. wines consumed in Poland greatly increased after EU accession. The trend of increased transshipments of U.S. food products is expected to continue.

Realization of direct payments and other subsidies in 2004/2005

The Agency for Restructuring and Modernization of Agriculture (ARMA) is responsible for the financial administration of farm support programs. By the end of July 2005, ARMA had paid PLN 2.8 million (US\$ 880,000) in direct payments to Polish farmers. On December 1, 2005, ARMA started to pay farmers direct payments for 2005. Almost 1.5 million farmers will receive PLN 6.8 billion (US\$ 2.1 billion) in direct payments in 2005.

Also, applications for different actions within the Rural Development Program (RDP) were received till the end of July 2005:

- 30,909 applications for structural pensions – paid out PLN 154,403,300;
- 116,783 applications for subsidies for small production farms;
- 24,511 applications for PLN 277,266,000 for support infrastructure activities and improving animals well-being;
- PLN 34,380,800 was paid for organic farming support;
- 2,209 applications for forestation of 9,062.5 hectares of farmed lands for PLN 66,342,600 in 2004 season and 4,251 applications for 17,420.9 hectares for PLN 137,988,400 in 2005 season;
- 73,950 applications for PLN 2,613,463,300 of a support to accommodate farms to the EU standards;
- 28 applications for producers' groups for PLN 5,834,500; and
- 42 applications for PLN 139,769,400 for technical support for RDP realization.

Within the financial support for the producers' groups, there were 5 applications for financing accepted groups operational funds, 19 applications covering costs of creating and administering the group, 21 applications from groups supplying tomatoes for processing industry, 1 seafood producers groups application for PLN 15,600 to prepare operational program.

From structural funds, for "Restructuring and modernization of food processing industry and rural development", there were:

- 45,566 applications received for PLN 5 billion;
- 16,445 agreements were signed for a total of PLN 1.5 billion;
- 8,984 transfers for PLN 461 million have been paid.

By the end of July 2005 there were PLN 3.5 billion projects realized (out of PLN 4.8 billion approved):

- PLN 985 million were paid for improvement of processing and marketing of agricultural and seafood products;
- PLN 546 million for investments in farms;
- PLN 1.8 billion for development and improvement of rural infrastructure;
- PLN 218 million for diversification of activities in rural areas;
- PLN 19 million for professional training;
- PLN 5 million for technical support.

The support from local funds – In the first half of 2005, Polish banks granted 10,428 preferential loans with ARMA interest rate support for total PLN 814 million. At the same time, ARMA transferred to the banks an amount of PLN 188 million to partially cover an interest rate of loans granted in the period of 1994-2004 and 2005.

During the first six months of 2005, ARMA paid also PLN 22 million to owners of forests, PLN 16 million to waste management or recycling companies, PLN 3 million to support creation and administration of producers groups, as well as guaranteed PLN 0.5 million agricultural investment loan and PLN 11 million to cover 726 student's loans.